

# **FINAL REPORT**

## **Trade Capacity Building (TCB) Policy Program**

**August 2000 - August 2004**

*This report was prepared by  
The Services Group*

**TSG**

**for**



**Regional Center for Southern Africa (RCSA)**

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## Abbreviations

AGOA	Africa Growth and Opportunities Act
BLNS	Botswana, Lesotho, Namibia and Swaziland
CET	Common External Tariff
CMT	SADC Committee of Ministers responsible for Trade and Investment
COMESA	Common Market of Eastern and Southern Africa
EAC	East African Cooperation
ERP	effective rate of protection
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement/Area
MIDP	Motor Industry Development Program
MFN	most favored nation
NEPAD	New Economic Partnership for African Development
NRP	nominal rate of protection
NTB	non-tariff barrier
RCSA	Regional Center for Southern Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SATRN	Southern African Trade Research Network
SAGC	Southern African Global Competitiveness Hub
SQAM	Standardization, Quality Assurance, Accreditation and Metrology
TBT	Technical Barriers to Trade
TIFI	SADC Directorate of Trade, Industry, Finance and Investment
TIPS	Trade and Industrial Policy Strategies
TNF	Trade Negotiation Forum
TP	Trade Protocol
TRALAC	Trade and Law Advisory Centre
USAID	United States Agency for International Development
USTR	United States Trade Representative's Office
USDA	United States Department of Agriculture
WTO	World Trade Organization

## **Chapter 1: Introduction**

The final report summarizes the overall program of assistance under the task order. It describes the activities undertaken during the life of the project, outlines the problems, issues, constraints and opportunities, noting the results and the impact. The project covered the period August 7, 2000 through to August 31, 2004 and has been implemented by IBM under SEGIR GBTI contract number PCE –I-98-00017-00 TO823.

### **Contract Structure and Objectives**

The original Statement of Work for the Task Order was developed in March 2000, prior to the official launch of the SADC Free Trade Area (SFTA) in September 2000. The objective of the work was to provide technical assistance to the SADC Secretariat to facilitate the implementation of the SFTA. The Task Order provided for a full-time Senior Trade Policy Advisor to be attached to the SADC Secretariat reporting to the Executive Secretary for two years. In addition it provided for short-term consulting services directly related to the implementation of the SFTA.

There have been three modifications to the contract. The first modification in February 2002 extended the contract of the Senior Trade Policy Advisor through to September 30, 2004, and increased the level of short term consulting services. The second modification in July 2002 provided for a full-time Trade Impact Advisor for twelve months, a full-time Customs Advisor to the SADC Secretariat for twelve months and increased the level of short term consulting services. At the request of RCSA/USAID the customs advisor position was subsequently converted into short term consulting services for trade policy analysis work. The newly established Southern African Global Competitiveness Hub RAPID contract assumed responsibility for the provision technical assistance on customs issues

The third amendment in May 2003 extended the services of the Trade Impact Advisor, provided for a full-time Technical Barriers to Trade Advisor to the SADC Secretariat, a full-time Trade Policy Advisor and Trade Capacity Building Advisor and substantially increased the short-term consulting services. The third modification amplified the purpose of the project to include support to the trade capacity strengthening of SADC Member States to effectively negotiate and participate in trade agreements and AGOA trade opportunities and requirements. During the course of the year, USAID has directed the activities of the project towards meeting the increasing requests of the Co-operative Group on Technical Capacity Building (CGTCB) to support the US – SACU FTA negotiations.

**Core activities of the program** have included:

*Implementation:* The project assisted SADC Secretariat with the establishment of the Trade Implementation Unit and the Trade Industry Finance and Investment (TIFI) Directorate. The project provided technical support to SADC Secretariat that assisted in the resolution of outstanding issues, and supported implementation of the free trade area.

In response to specific requests to the Secretariat from Member States the project initiated a series of activities aimed at supporting effective implementation. These included studies on the rules of origin, a study on the notification of the SADC Trade Protocol to the WTO and the preparation of an Implementation Schedule for Angola.

*Rules of Origin:* During the first year of the project, negotiations over unresolved rules of origin became a priority. The project initiated a series of case studies identifying the economic implications of the proposed rules of origin in specific sectors and producing a series of reports. This culminated in two Round Tables and a special meeting of Senior Government Official on the rules of origin.

*AGOA:* Work of the project showed that restrictive SADC Rules of Origin for textiles and clothing, based on an inward looking view of regional integration, risked damaging the potential for developing a competitive regional supply chain in clothing. Technical input was also provided at AGOA Forums and workshops throughout the region.

*Economic Impact of the Trade Protocol:* The project carried out the Economic Impact Study of the SADC Trade Protocol, based on firm level surveys. The impact assessment demonstrated that in the absence of substantial liberalization of the rules of origin the SADC Free Trade Area will create incentives for significant trade diversion as SACU producers sell into protected SADC markets.

*Technical Barriers to Trade (TBT):* The project initiated a work program on TBT with a workshop on Regulatory Approaches to Managing Technical Regulations in 2002. Follow up to the workshop included a baseline study on SADC Member States Compliance with the WTO TBT Agreement and A Review of Regulatory Approaches. Subsequently a series of case studies were undertaken.

*Trade Training and Outreach:* Have been both stand alone activities and also integral to all activities of the project as cornerstones for delivering sustainable change in trade policy and developing capacity within the region. In addition to training provided in support of the SACU- US FTA, the project has carried out training of stakeholders throughout the region in trade policy analysis. Specific outreach activities have included a trade policy roundtable and seminars, participation and support of seminars with regional research institutions and the Commonwealth Secretariat, and the dissemination of information through local media and the Trade Hub. In all activities the approach of the project has been to directly involve and inform key stakeholders to ensure their input into, and therefore ownership of, the results of analysis.

*SACU – US FTA:* In support of the BLNS countries in their negotiations with the US for a Free Trade Area, the project has provided National Level Facilitators to each of the four countries, prepared Country Needs Assessment to identify the priority areas for TCB activities, and organized a series of workshops including tariff policy, and services.

*SACU:* The project carried out a study on the implications of Mozambique joining SACU.

*Mid Term Review of the SADC Trade Protocol:* The work on Economic Impact and rules of origin has provided the background to the ongoing Mid Term Review. The project has prepared inputs for the Mid Term Review on Non Tariff Barriers, Implementation and External Trade Relations. The project identified key institutional changes required to ensure more effective implementation.

### **Linkages with the other activities of the Trade Hub**

By supporting the development of an enabling policy environment for the private sector, the project complements other activities of the Southern Africa Global Competitiveness Hub which work at the company level providing specific assistance to producers to access export markets.

## **Chapter 2: Activities**

### **Program of Assistance under the Task Order**

#### **2.1 Senior Trade Policy Advisor Activities August 7, 2000–July 31, 2001**

The Senior Trade Policy Advisor (Dr. Robert Kirk) supported the Secretariat to establish the Trade Implementation Unit (TIU) to implement the SADC Trade Protocol, focused on addressing unresolved and outstanding implementation issues, and provided specific technical advice to the Executive Secretary on the establishment of the new Directorate of Trade, Industry, Finance and Investment (TIFI).

During the first 12 months of the project the Senior Trade Policy Advisor provided specific inputs and advice on the following:

- Accompanying the Executive Secretary to Brussels (September 24-27) to meet with the ACP Secretariat, the EC Directorates for Development and Trade to discuss the development of the Southern African Regional Indicative Plan (RIP). The RIP identifies the development cooperation priorities for the region and establishes the basis for the delivery of EU finance and support.
- Assistance to SADC Secretariat on the trade component of the RIP with the EU.
- Participation in the East African AGOA Forum organized by USTR in Nairobi 26-27 October 2000. The Senior Trade Policy Advisor attended the USDA organized Workshop on Risk Assessment (August 27-30, 2001) in Cape Town. Participated in the Southern African Economic Summit in Durban (June 6-8) where the Advisor prepared briefing materials to be used by the Executive Secretary in his presentations. As part of the preparations for the WTO Ministerial Meeting attended the WTO organized Africa Trade Ministers Workshop in Libreville, Gabon (November 12-15, 2000).
- Accompanied the Executive Secretary to Brussels (December 6-14, 2000) to participate in the ACP Ministers Meeting and was involved in the first meeting of ACP Regional Integration Organizations (RIO's) which focused on the implications of the Cotonou Agreement for RIO's. The Cotonou Agreement commits the ACP countries to enter into Article XXIV compatible free trade agreements with the EU by 2008. While the existing trade arrangements are guaranteed for the least developed countries, all other countries must either agree to a FTA or accept the non reciprocal preferences available under the GSP.

Attended the second ACP meeting of Regional Integration organizations (May 3 - 4, 2001 Brussels) to discuss the definition of regions for trade negotiation purposes with the EU, in the context of the Cotonou Agreement. The meeting also discussed the preparations for the new trade arrangements between the EU and the

ACP. The Senior Trade Policy Advisor also met with Brussels based SADC diplomats and officials from DG Trade and DG Development.

- Provided support for the establishment of a SADC Committee of Regional Tariff Setting Organizations. This included participation in the inaugural workshop at Victoria Falls (January 21-23, 2001) and advice on the development of their work program.
- In Washington met with officials from the World Bank and the IMF working on regional integration in Southern Africa. Discussed the possibility of developing a joint research program to evaluate the impact of regional integrations. Invited to attend the IADB Conference on Regional Integration and Trade in the Development Agenda (May 2002).
- Collaborated with the Market Integration Team of the RAPID project, provided advice on their support for the National Working Groups, discussed the need for comprehensive work on the impact of the Trade Protocol given the differing external tariff regimes. This also included participation in the regional USAID workshop on SADC/RAPID held in Johannesburg on April 3, 2001. Made a presentation on the progress of the trade negotiation process.
- Involved in liaison with COMESA on trade policy initiatives. Participated in the first meeting of the Joint Steering Committee between SADC and COMESA to discuss improved coordination on technical initiatives. This cooperation eventually resulted in the joint work on the impact of regional integration (through 2002-2003).
- Implementation Support. The Senior Trade Policy Advisor participated as part of the SADC Secretariat in all the SADC Trade Negotiation Forum, Senior Trade Officials and CMT Meetings. During this period this included meetings that finalized the implementation of the Sugar Protocol under the SADC Trade Protocol-this is now in operation; addressed the outstanding rules of origin and WTO issues, specifically the preparation of a SADC negotiating position in preparation for the WTO Ministers meeting scheduled for Doha in November 2001.
- Implementation Support. Prepared a discussion paper on the future trading relationship between SADC and the EU and facilitated a regional workshop to discuss the issue in March 2001, in Centurion, South Africa.
- Implementation Support. Commenced a program of work on outstanding rules of origin. Began a study on the implications of the proposed rules of origin for the Wheat and Milling Sectors. This involved interviewing the major milling companies throughout SADC. The USDA Agricultural Advisor in Pretoria was also consulted. The preliminary recommendations were presented at a Round Table meeting in Gaborone in June, 19-20 2001. The issue was discussed



subsequently at the Committee of Ministers of Trade in Maputo in July 2001. They recommended the need for further work on the outstanding rules of origin.

- **Implementation Support - WTO Notification.** The project initiated a study and commissioned consultants to prepare an assessment of the relative advantages and disadvantages of notifying the SADC Trade Protocol under either Article XXIV of GATT 1994 or under the Enabling Clause. The study was distributed to Member States in August 2001. The study set out the alternatives and rationale behind the notification options under Article XXIV of GATT 1994 or under the Enabling Clause, and outlines the requirements and procedures involved in notifying the SADC Trade Protocol to the WTO in each case.

Based on the findings of the report SADC Secretariat prepare a recommendation to the Committee of the Ministers of Trade (CMT) recommending that the SADC Trade Protocol be notified to the WTO under Article XXIV of the GATT 1994. The CMT endorsed this recommendation at their meeting in Maputo in July 2002. The SADC Secretariat subsequently prepared a follow up requesting the South African delegation in Geneva to notify on behalf of all the SADC Member States. South Africa requested the Secretariat to follow up with the Chair of SADC. At the CMT in February 2004 it was agreed that Tanzania as the Chair of SADC will submit the notification through their Mission in Geneva. Tanzania is now liaising with the WTO Secretariat on information requirements and is expected to make the formal submission within the next few weeks.

- **Implementation Support- Standards, Quality Assurance, Accreditation and Metrology (SQAM).** The Senior Advisor met with the SADC SQAM Coordinators and discussed how to mainstream Technical Barriers to Trade Issues within the trade agenda. This was followed by participation on the SADC Coordinators Workshop on a SADC SQAM Project.
- **Outreach work.** The Senior Trade Policy Advisor made a presentation on the implications of the SADC Trade Protocol at a workshop organized by the Employers Confederation of Zimbabwe.
- **Outreach work.** The Senior Trade Policy Adviser was invited by DTI South Africa and the Foundation for Global Dialogue to a Symposium on the WTO. The Advisor made a presentation on SADC's preparations for the forthcoming WTO Ministerial Meeting (held in Doha in November 2001)
- **Outreach work.** The Senior Trade Policy Advisor was invited to the Center for the Study of African Economies, University of Oxford, Fourth Annual Conference (April 2001) to act as a discussant in the session 'Towards a New Trade Liberalizing Round?' The keynote speaker was Rubens Ricupero, Secretary General of UNCTAD. The keynote after dinner speaker was President F. Mogae, Botswana. The theme of the conference was Development Policy in Africa: Public and Private Perspectives. The visit was sponsored by CSAE.

- Outreach work. The Senior Trade Policy Advisor was sponsored by the Asian Development Bank Institute to act as a resource person on their Trade Policy Course (April 16-22, 2001) aimed at senior officials and the private sector. The course was attended by 35 participants from 19 countries with resource persons from inter alia, the World Bank, ADB and IADB. The Advisor prepared and presented a paper on the economic implications of the SADC Trade Protocol.
- Advice to SADC Secretariat on the relocation of responsibilities from the SADC Industry and Trade Coordinating Unit (SITCD) in Dar es Salaam for the implementation of the Trade Protocol, and then following the approval in March 2001 by the SADC Heads of States of a fundamental restructuring of the SADC institutional framework, advice on the orderly transfer of responsibilities to the new Directorate. The Advisor also provided advice to the Executive Secretary on the interim arrangements for addressing trade issues during the transition period, and developed a draft scope of work. During this period it was recognized that the new TIFI Directorate had an increased need for advisory and short-term technical assistance resources.

## **2.2 Years 2 and 3 (August 2001 –July 2003)**

During year 2 of the project the focus shifted to focus on specific issues aimed at raising awareness of the economic importance of reducing non tariff barriers along with tariffs both internally within SADC and also externally with the rest of the world. The project initiated work aimed at supporting SADC Member States increasing integration into the world economy. The work focused on the following initiatives:

- Rules of Origin;
- Economic Impact Analysis;
- Technical Barriers to Trade;
- Ongoing Implementation Support and Advice to the SADC Secretariat.

### **2.2.1 Rules of Origin**

The project carried out a major research activity on the unresolved rules of origin within SADC. The work involved staff within the newly created TIFI Directorate and involved a wide range of interviews with manufacturers and traders in several SADC countries – including Botswana, Mozambique, South Africa and Namibia- across a wide range of industries. The reports were disseminated to a regional SADC Round Table (October 24-26, 2002) and followed up with presentations to the Mozambique CTA (Employers Association), USAID and at the TIPS Forum in September 2002.

*Following the dissemination of the work a number of the outstanding rules of origin were agreed-in all cases the final outcome was more liberal than had originally been proposed.*

The very nature of TCB work makes it difficult to directly attribute results to the activities in the area of rules of origin. However, following the dissemination of the work, rules of origin have improved in many sectors. There was also agreement at the level of SADC Ministers of the necessity of a serious review of the rules of origin to be part of the Mid Term Review of the SADC Trade Protocol.

We have also witnessed a level of debate that has demonstrated a far clearer understanding of the impact and importance of rules of origin. We have also seen private sector stakeholders taking a far stronger role, especially those focused on global markets and international competitiveness, whose interests had been misunderstood and/or misrepresented in the TP negotiations. There has been greater interest in open regionalism in government and civil society, as demonstrated by the request for the presentation of the work at various forums (TIPS, Tralac, various universities and research centers in the region) and publications. The work of the project on textiles in particular has also made a significant contribution to debates on rules of origin for the AGOA and for the EU's "Everything But Arms" initiative.

The short term consultant working on Rules of Origin produced a series of papers during the course of 2001 and 2002 which included:

#### ***2.2.1.1 Wheat Flour and its Products***

This work was initiated in response to a request from the SADC Ministers to conduct a technical study and make recommendations on various alternative rules of origin for wheat flour and products of wheat flour. This was a sector in which the Member States were having considerable difficulty in coming to agreement.

The study was conducted by Robert Kirk and Frank Flatters of TSG and Hennie Erasmus of the TIFI unit in the SADC Secretariat. The study involved detailed technical discussions with stakeholders in the public and private sectors in most of the key Member States and subsequent economic analysis of the implications of alternative rules. The analysis demonstrated how the TP negotiations in these sectors were effectively being held up by a small number of special interests in the South African and BLNS milling industries who wished to have rules of origin that would protect them from any new competition under SADC free trade. Indeed the work on Wheat Flour and the Milling Industry has been quoted in a recent case study undertaken by the South African Competition Board.

The results were presented initially at a SADC Roundtable event in Gaborone, Botswana. While Member States did not reach agreement on rules of origin, the findings of the study were successful in preventing the adoption of rules of origin that would have had damaging long term effects by preventing any preferential trade from ever occurring.

A much more important outcome was an increased awareness of the importance of rules of origin in achieving (or frustrating) the goals of the TP, not just in this sector, but at a more systemic level. The capacity of key SADC officials was substantially enhanced, and the understanding among stakeholders in the private and public sectors was also increased.

### **Rules of Origin in Wheat Flour and its Products**

In the wheat flour sector, several Member States requested follow-up help in formulating revised negotiating positions in this sector. The Ministries of Trade and of Agriculture in Namibia arranged funding for Frank Flatters to spend 10 days with their officials and various private sector stakeholders to enhance their understanding of the issues and determine future strategies for these sectors.

This work was a key input into drafting the new policy documents utilized by Namibia in future SADC and SACU trade negotiations. Stakeholder Round Tables helped provide common understandings of the key issues.

#### ***2.2.1.2 Outstanding Issues on Rules of Origin***

The work on wheat flour and its products began to awaken and awareness of more systemic problems with the direction of the TP negotiations. As a result, the SADC Ministers requested further technical studies of rules of origin in additional sectors in which they were having difficulty reaching agreement. This work was led by Frank Flatters, once again in close collaboration with Hennie Erasmus of the SADC Secretariat.

As with the earlier work on wheat flour and its products, a central part of the work was collaboration with public and private sector stakeholders in a number of Member States. The dialogues that were opened up in this way resulted in the collection of key data from all interested parties, increased capacity to use this information to analyze the implications of different policy options, and a much clearer and more common understanding of these alternatives.

#### ***2.2.1.3 AGOA and SADC Rules of Origin in Textiles and Clothing***

The implementation of the AGOA Initiative generated great interest in the extent to which the SADC Trade Protocol could assist the region to benefit from export opportunities, in particular in the textile and garment sector. To inform policy debate, the project prepared showing that restrictive SADC Rules of Origin, based on an inward looking view of regional integration, risked damaging the potential for developing a competitive regional supply chain in clothing.

### **2.2.2 Motor Industry Development Program (MIDP) and South Africa's Motor Industry**

As a result of work done in connection with rules of origin, the project was drawn into further work on the motor industry. Recognizing the more general interest and value of the kind of sector work conducted on SADC Rules of Origin, TIPS decided to organize a session at the TIPS Forum in 2002 on the 'success' of the SA motor industry. Papers were presented by several SA experts and researchers, and comments were solicited from

the motor industry (both vehicles and components), a senior member of the SA Board of Tariffs and Trade and Frank Flatters. The session was chaired by David Kaplan, Chief Economist at the DTI.

Flatters prepared an economic analysis of the actual incentives created by the Motor Industry Development Program (MIDP) and, based on some rough preliminary calculations, showed that it provided very large subsidies to investors and producers of vehicles and components. Some preliminary estimates of economic costs were prepared.

The session generated very heated discussion and Flatters was encouraged to write up some of his results in a more comprehensive fashion. This resulted in a paper that informed a major debate that took place over the following year, as well as a close dialogue with David Kaplan and some of the intellectual architects of MIDP. While initially skeptical, by the end of 8 months, David Kaplan was convinced that many of the costs and implications of MIDP and similar policies had been overlooked, and he himself prepared a paper for presentation at the following year's TIPS Forum that drew heavily on Flatters' work and received very broad press coverage. The essence of Kaplan's message was that the DTI had engaged in types of trade policies that had detracted from rather than contributed to SA's development goals. He concluded that a major rethinking of the DTI industrial policy strategies was needed.

Flatters was also invited to give a more comprehensive review of the issues surrounding this debate at the same TIPS Forum in 2003. The result was another critique of MIDP that has received wide attention in South Africa and abroad (IMF, EU, World Bank and governments and the private sector in Australia and elsewhere).

The issues are now the focus of a new generation of research and policy thinking on SA industrial strategies. The work is quoted not only in current discussions of industrial strategy, but also other areas such as competition policy in SA.

### **2.2.2 Economic Impact Analysis**

Following the restructuring of the RAPID project in October 2001 the Support to SADC Secretariat project was requested to carry out the economic impact analysis. RCSA/USAID provided additional funds to recruit short term consultants for the study. The project recruited Tania Revault D'Allonnes (Economist), Steven Rittenberg (modeler), Andrey Moiseyev (modeler), Professor Clark Leith (Senior Technical Adviser), Imani Consulting (to undertake the firm level surveys in South Africa, Lesotho, Swaziland, Namibia and Mozambique), and BIDPA for the firm level survey in Botswana. In addition Dr. Kennedy Mbekiani was contracted to prepare a report on 'Trade in Services and Service Reform in the SADC Countries', and Ms. Anastasia Gekis to prepare a report on 'The Manufacturing Sector in SADC'. The project cooperated extensively with COMESA Secretariat, and TIPS (who permitted Ms. Gekis to work from their premises whilst doing fieldwork in South Africa). During the fieldwork stage the Senior Trade Policy Advisor gave a presentation at the IMF to a number of the staff from both the World Bank and the IMF working on trade issues in Southern Africa.

The SADC and COMESA Secretariats managed the Economic Impact Assessment study. The study assessed the implications of implementing further multilateral and regional trade liberalization policies with specific reference to the SADC Free Trade Area and the moves towards a COMESA customs union. The output from the EIA study aimed to assist the SADC and COMESA Secretariats and Member States to implement their regional agenda's more effectively through highlighting the expected benefits and identifying where any short-term negative impacts may occur.

USAID and the EU financed the EIA study through their projects at the SADC and COMESA Secretariats respectively. We were responsible for the preparation of the Inception Report. The Inception Report summarized the approach, documented the progress through to March 2002 and sets down the expected future work and reporting requirements. The study commenced in January 2002 and was originally scheduled for completion in July 2002.

The EIA commenced in January 2002 and was organized on a modular approach to maximize flexibility. The work during the Inception Stage focused on:

- Design of the firm level questionnaire;
- Collection of country level information on incentives and current tariff rate schedules from the official authorities in each Member State;
- Collection of import and export data from Member States at the most disaggregated level used in the customs tariff, showing country of origin for imports and destination for exports, customs value and where available the duty paid;
- Drafting of the methodology to be used for the simulation exercise; and
- Collection and review of existing reports.

The study follows the modular approach in order to accommodate the requirements of the two funding agencies and to take account of the difficulty of obtaining consistent information across 24 countries. The next phase of the work focused on:

- Collecting firm level data through a series of surveys in Member States. For each country the consultants identified the important economic sectors and subsectors based on aggregate production data, and then identified a representative sample of companies for the survey. The firms were interviewed using the agreed questionnaires;
- Design of a “user-friendly” trade impact model that can be used in each country to analyze the firm level data, derive information on nominal and effective rates of protection and simulate alternative policy scenarios. Preparation of a technical manual and a user’s manual for the trade impact model;
- The data from the firm level surveys, and the trade policy information to be entered into the trade impact model. It is necessary to assign 6-digit HS codes to all traded inputs and outputs;

- Preparation of a descriptive summary of the existing tariff and trade policy regimes in Member States;
- Production of a report for each country summarizing the results of the firm level survey work and the case studies of specific sectors;
- Preparation and presentation of a consolidated report summarizing the results of the study work at the SADC-wide level; and
- Training of professional staff from Member States in the structure and operation of the Trade Policy Impact Model (TPIM) and handover of the working model.

The EIA was organized into two phases. Phase I covered the preparatory work and included the following tasks:

- Collection of published reports and studies on trade policy issues within SADC;
- Collection of information on the existing external tariff regime and the various tariff phase down schedules under SADC and COMESA;
- Collection of import and export trade data for the Member States;
- Finalization of the methodology and work-plan for the study;
- Design of the quantitative and qualitative firm level questionnaires;
- Recruitment of consultants to manage the firm level survey; and
- Preparation of a detailed policy file at the 6-digit Harmonized System level.

The firm level surveys were carried out during Phase II of the project, commencing in April 2002. COMESA financed the survey work in Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Rwanda, Seychelles, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. USAID financed the surveys in Botswana, Lesotho, Namibia, South Africa, Swaziland and Mozambique.

It was envisaged that 30-40 firms would be interviewed in each country, with up to 100 in South Africa. The surveys were carried out by small teams of interviewers and managed by a regional consulting company. Imani Development (International) Ltd, managed the surveys in Mozambique, South Africa, Lesotho, Namibia and Swaziland, and BIDPA will cover Botswana. COMESA Secretariat directed the firm level surveys in all the remaining countries. Thus work in SACU and Mozambique was supervised by the SADC study team, while work in the other countries were managed in the first instance by the COMESA team, including Tanzania. Close ties were maintained between the two teams to ensure consistency in process and outcome.

The consultants responsible for the firm level surveys in South Africa, Namibia, Lesotho and Mozambique experienced serious problems obtaining completed questionnaires. It was necessary to significantly extend the deadline for the surveys by several months in order to obtain an adequate number of usable responses. When the questionnaires had been returned to the Senior Trade Advisor, Ms. Tania D'Allonnes had to check the data and arrange for it to be entered into the evolving model.

The first modeler, Steve Rittenberg had to be withdrawn from the project owing to ill health. He was replaced by Andrey Moiseyev who developed a comprehensive Model for calculating firm level effective rates of protection under differing scenarios. The development of the *Tariff Policy Impact Model (TPIM)* took considerably longer than had originally been envisaged in order to ensure it was completely debugged and was user friendly. The TPIM was only finalized during the first quarter of 2003. The draft final report was prepared during the second quarter of 2003 and submitted in June 2003.

COMESA also experienced difficulties in obtaining firm level data indeed the delay in obtaining the data prevented the project from producing a series of country level reports. The Final Report presented an overview of the structure of incentives provided by the existing trade policy regimes within SADC. This included a review of the structure of the published levels of protection based on the tariff books on agreed SADC preferences, and the pattern of effective protection based on firm level input-output coefficients. Effective protection measures the net protective effect on producers of nominal protection on both its inputs and outputs. The nominal tariffs on inputs and outputs change the prices for those products compared to what would prevail if there were no tariffs.

#### **Economic Impact Analysis of the SADC Trade Protocol:**

By working at the level of the firm, the study was able to demonstrate the real cost of tariff protection in terms of damaging competitiveness and distorting the economy; costs which are all too often underestimated in analysis based on sector wide averages.

The results served to highlight the potential for the Trade Protocol to lead to damaging trade diversion unless SADC adopted an open approach to regional integration

In undertaking the study, the project ensured a joint framework of analysis was developed with SADC. With the problems of overlapping membership to COMESA and SADC becoming ever more pressing, this common framework will become increasingly important in helping the two regional integration initiatives find a common way forward.

Underpinning the analysis is the Tariff Policy Impact Model (TPIM) developed by the project. The TPIM has proved a very successful basis for trade training activities; it is now being used in the region and has also been adopted by staff at the World Bank.

The study shows that the existing levels of nominal protection on inputs and final products throughout SADC Member States result in widely varying levels of effective protection-within sectors in individual countries, between sectors in each country, and between countries. The firm level data allowed results to be calculated at the level of the specific product or sub sector, all too frequently studies of effective protection are based on sector wide averages, which tends to mask the level of the economic distortions resulting from trade policy. Across the region there is a close correlation between high rates of effective protection for specific products and the existence of import substituting activities based on selling to a protected domestic market. The removal of tariffs on a



preferential basis under the SADC Trade Protocol creates the potential for both trade creation and trade diversion. Trade creation will result in increased efficiency as countries are able to source from more efficient regional suppliers, however, trade diversion will reduce welfare when the removal of tariffs permits countries to source imports from less efficient regional suppliers.

Attempts to prevent trade diversion through adopting strict rules of origin aimed at ensuring a high level of local content will prevent trade from most of the non-SACU countries from qualifying for SADC preferences. The implementation of the SADC Trade Protocol with strict rules of origin and without further reductions in Member States external tariffs creates major incentives for the larger SACU economies to 'benefit' from trade diversion at the expense of the poorer non-SACU countries within SADC.

In the absence of a substantive liberalization of the rules of origin the SADC Free Trade Area will create incentives for substantial trade diversion as SACU (principally South African) producers sell into protected SADC markets. The non-SACU economies will forgo tariff revenue with no corresponding increase in economic efficiency. The scope for increased investment and trade from the non-SACU economies to the SACU market under SADC preferences is rendered nugatory by the existing rules of origin across many sectors.

For the SADC Trade Protocol to contribute to increased growth and to facilitate international competitiveness it is necessary for Member States to reduce the level and disparities of their external tariffs.

### **2.2.3 Technical Barriers to Trade**

The Senior Trade Policy Advisor organized a Regional Workshop on the Technical Regulations Framework in Gaborone, Botswana (March 21-22, 2002). The workshop was attended by 33 participants and five resource persons, from WTO, USTR, EC, ISO and the South African Bureau of Standards. Ms. Suzanne Troje, Director TBT, USTR made a presentation on the Management of Technical Regulations within the NAFTA. The Senior Trade Policy Advisor prepared and presented a discussion paper on the management of technical regulations, which outlined the importance of having a coherent approach. The paper set down the main economic advantages of efficiently managing technical regulations and presented ideas on the elements that would need to be considered as SADC moved towards adopting an Annex to the Trade Protocol on technical regulations.

The workshop agreed that it was necessary for Member States to undertake a stocktaking exercise in order to assess and evaluate the existing situation. SADC Secretariat prepared an outline work plan which was submitted and approved at the SQAMEG meeting in Seychelles. In accordance with the work plan the project managed an assignment to benchmark each countries implementation of the WTO TBT Agreement. This activity was managed by Martin Kellerman with support from Paul Kalenga and Beth Walsh. The final output included a summary report and a separate country annex for each SADC country. The project also undertook a study reviewing the pros and cons of differing

approaches to managing technical regulations. This work was undertaken by Peter O'Brien. The final report was entitled 'Technical Regulations in a Changing World: Towards a Realistic Approach for SADC'. In addition the Senior Trade Policy Advisor and Paul Kalenga produced a discussion paper on 'The Management of Technical Regulations: Issues for SADC'.

This work was presented at a regional workshop held in Gaborone on March 12-13, 2003. Following the regional workshop SADC requested additional technical support to advance the SQAM program and to begin to develop an SQAM Annex to the SADC Trade Protocol. In the third revision to the project USAID provided for an advisor on Technical Barriers to Trade and for short term consulting inputs to support the SADC program and also to increase awareness of the importance of TBT as a trade policy issue.

#### **2.2.4 Ongoing Implementation Support and Advice to SADC Secretariat**

The Senior Trade Policy Advisor continued to provide technical support to SADC Secretariat through 2002-2003 through participation in the Trade Negotiating Forum Meetings, the Committee of Senior Officials and the Committee of the Ministers of Trade. Support was provided to the SADC Secretariat for the ACP negotiations with the EU leading up to the formal launch of the ACP-EU trade negotiations in September 2002. The Senior Trade Policy Advisor prepared briefing materials for the meeting between Commissioner Lamy and SADC Ministers of Trade (28-29 November 2002).

The Executive Secretary requested the Senior Trade Advisor to attend the Annual Meetings of the World Bank and the IMF in Washington (October 2002) as a representative of SADC. Whilst in Washington Robert Kirk met with World Bank and IMF staff working on SADC countries, participated in a meeting organized by COMESA to discuss their program, and attended a training session on the WITS<sup>1</sup> software. Upon returning to Botswana arrangements were made for the WITS software to be installed on the SADC server.

#### **2.2.5 Outreach Work**

The Senior Trade Policy Advisor participated in the SATRN Annual Symposium at Kasane (November 17-19, 2002) and acted as discussant in a session on trade facilitation in SACU.

The Senior Trade Policy Adviser was invited to make a presentation at the BOCCIM 7<sup>TH</sup> Annual National Business Conference, Francistown, August 5-8, 2002. The presentation was titled, 'What Should Botswana Do to Take Advantage of Opportunities Offered by Globalization and other Trade Initiatives?'

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<sup>1</sup> World Integrated Trade Solution

Robert Kirk and Frank Flatters were invited to Mozambique by the USAID Mission to brief the Mission on their work program under the SADC Project and also to comment on the Mozambique Trade Mainstreaming report.

Work on the project was presented at the TIPS Annual Forum in Johannesburg (September 2002). Papers were presented by both Robert Kirk and Frank Flatters on the progress on the economic impact study and the implications of the SADC rules of origin respectively. In addition both Kirk and Flatters were discussants on other trade related papers.

## **2.3 Activities August 2003-August 2004**

In 2003, the contract of the project was extended to include the services of the Trade Impact Advisor, Technical Barriers to Trade Advisor, Trade Policy Advisor and Technical Capacity Building Advisor and substantially increased the short-term consulting services. Robert Kirk became the Project Director and short term consultant to the project. He was replaced by Denis Gallagher in June 2003 as Chief of Party and Senior Trade Policy Adviser. In March 2004, Denis Gallagher resigned to take up another position. Resource constraints and the fact that the project was terminating in August 2004 prevented the Chief of Party being replaced. For the period following March, the existing Long Term Advisers acted as section leaders and official contact points for core activities. Dr. Kathleen Trask and Joshua Setipa were responsible for the SADC activities and the SACU TCB activities respectively and liaised with SADC and RCSA/USAID on a day-to-day basis, with the Project Director, Dr. Robert Kirk providing additional support. Paul Kalenga left the project to take up an appointment at TRALAC at the end of April 2004.

The third modification amplified the purpose of the project to include support to the trade capacity strengthening of SADC Member States to effectively negotiate and participate in trade agreements and AGOA trade opportunities and requirements. During the course of the year, USAID has directed the activities of the project towards meeting the increasing requests of the Co-operative Group on Technical Capacity Building (CGTCB) to support the US – SACU FTA negotiations.

### **2.3.1 Mid Term Review of the SADC Trade Protocol**

#### ***Purpose***

Signed in 1996, the SADC Trade Protocol commits the signatories to the establishment of a Free Trade Area. Implementation began in 2000 with 85 percent of all intra-SADC trade scheduled to be duty free by 2008. As 2004 marks the midpoint in the initial eight-year implementation period, the Member States commissioned a Mid Term Review of the Trade Protocol. TSG undertook the review of three key areas: (1) Status of implementation in Member States (2) Non-Tariff Measures including Non-Tariff Barriers

(NTBs), Technical Barriers to Trade (TBT) and Sanitary and Phyto-Sanitary Measures (SPS). (3) External Trade Policies of SADC Member States.

### ***Approach and Output***

In cooperation with the Secretariat professional staff, co-operating partners, member-states, the TSG team involved in the Mid Term Review included: Kathleen Trask, TBT Advisor; Nicholas Charalambides, Technical Capacity Advisor, Joshua Setipa, Trade Policy Advisor, Sutherland Miller III, TSG Manager.

Following intense desk research, the project team undertook a series of ten country visits to Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, South Africa, Tanzania and Zambia. During the country visits, extensive consultations were held with both public and private sector stakeholders regarding concerns with the current and future pace of integration under the Trade Protocol. A number of areas were identified:

Status of Implementation: With regard to the status of implementation, our findings indicate that most Member States have had varying levels of difficulties. With respect to the schedule of tariff reductions, Zimbabwe, Malawi and Zambia are substantially delayed in implementation. Generally, with respect to the basic parameters Member States are largely on track.

However, in Member State discussions as part of the country visits, many stakeholders have the impression that a much larger degree of non-implementation existed. One important reason for this misunderstanding was a lack of information, communication and overall transparency within and among Member States. Secondly, as highlighted in the report, although many individuals expressed disappointment in the perceived lack of results in terms of increased intra-SADC trade and attributed this to non-implementation, in actual fact however, only a small portion of tariff liberalization was scheduled to be achieved by 2004 due to the heavy backloading of tariff offers,. Additionally, restrictive Rules of Origin and proliferation of Non-Tariff Barriers (NTBs) have served to restrict trade in the very sectors where Member States had hoped to see the greatest results.

Non-Tariff Barriers: The review assessed the extent to which these measures restrict greater regional integration, to consider the views of public and private sector stakeholders and to make recommendations for improving the effectiveness of the Trade Protocol in this regard. We consider three broad classifications of NTMs: NTBs, Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS).

Our findings indicate that the scope of NTBs in the SADC region is extensive and form a substantial hindrance to intra-SADC trade. In terms of the formal commitments of Member States, virtually no systematic progress has been made.

As a result of the review of implementation and non tariff barriers, a central recommendation was for SADC to consider a more formal **Monitoring and Implementation Unit** for the Trade Protocol with the direct participation of the private sector. This proposal has received the initial support of several Member States. A group

could be established either within the SADC Secretariat or perhaps through a regional research institution.

External Trade Policies: As a FTA, the SADC Trade Protocol does not in general restrict the external trade policies of Member States. The SADC RISDP, however, envisions the establishment of a SADC Customs Union by 2010 and the variations in external trade policies among Member States will be central to the feasibility of such a plan, in particular given the multiple memberships of many countries in the region to different trade agreements. Very little allowance for the problems created by multiple memberships appears to have been made by any of the groupings (COMESA, EAC, SACU, SADC).

We also found that the increase in bilateral negotiations among Member States indicates that the terms of the Protocol are insufficient to generate the trade benefits desired.

### ***Impact***

Our work has provided the background materials for increased understanding of the key issues for discussion and debate. The Trade Negotiating Forum is expected to discuss the results of the Mid Term Review in September 2004. A crucial element of continuing work must be the follow up on this review, in particular the establishment of a Monitoring and Implementation Instrument. Additionally, the network of public and private sector contact built up during the course of the country visits should continue to be developed in future work.

### ***Delivery to Planned Outputs and Milestones***

The project met the objectives for the review, carried out the agreed country visits and delivered its report in a timely manner. The report has been well received by the SADC Secretariat and the Member States Troika and is scheduled for discussion at the Trade Negotiating Forum (TNF) on the 13<sup>th</sup> September.

## **2.3.2 SACU – US FTA Trade Capacity Building Program**

**Background:** The United States and the five Member States of the Southern African Customs Union (SACU) – Botswana, Lesotho, Namibia, South Africa and Swaziland – launched negotiations toward a free trade agreement (FTA) on June 2, 2003 in Pretoria, South Africa. This will be the first U.S. FTA in sub-Saharan Africa and the first time the SACU countries are collectively negotiating an FTA. With the exception of South Africa, it is also the first time Botswana, Lesotho, Namibia and Swaziland (the BLNS countries) are negotiating an agreement of this nature.

**Framework for the delivery of technical assistance:** To enable the disbursement of this technical assistance funded through USAID, a special Co-operative Group on Trade Capacity Building (CGTCB) was established between the U.S. and SACU to identify needs and swiftly direct technical assistance resources for capacity building activities during the negotiations. The cooperative Group's work is conducted on the margins of the FTA negotiating rounds during which both parties (SACU and USTR) discuss emerging priorities and delivery channels.

To facilitate the day to day coordination of the TCB program, the project's task order was extended to include the coordination of the delivery of demand driven, focused Technical Assistance (TA) to the BLNS countries matching the pace and developments in the FTA negotiations.

The approach of the project has been focused on ensuring ownership and to respond with flexibility to ensure demand led technical assistance is provided. The requests for technical assistance by the CGTCB have been very specific and often required a rapid and flexible response from the contractor. The project has been able to deliver training workshops at short notice. This included the 3 day workshop at Aloe Ridge in July 2003, which was successfully implemented at two weeks notice with a combination of international and SACU resource persons.

The TCB activities undertaken are detailed below: (1) TCB needs assessment (2) Services workshop (3) Workshop on tariff policy (4) Study on the economic effects of tariff liberalization.

#### ***2.3.2.1 SACU Trade Training Course***

##### ***Purpose***

The course was organized at the request of the SACU-US FTA's Cooperative Group on Trade Capacity Building. The two and a half day course outlined the issues included in the ongoing negotiations for a US-SACU Free Trade Agreement. Participants were sensitized to the detailed information requirements needed to participate effectively in the negotiations (to ensure their country interests are represented), to implement the trade commitments and to be able to take advantage of the benefits from the agreement.

##### ***Approach and Output***

The course provided an overview of the key economic arguments that underpin each of the issues, prior to outlining existing Multilateral commitments and obligations, and developments in the new US Free Trade Agreements with Chile and Singapore. In addition to the sessions outlining the issues to be agreed as the agreement is negotiated, participants were encouraged to consider the information/data they will require as they prepare and draft their own negotiating mandate on specific issues.

The Course was attended by 53 participants from the SACU countries (Botswana 11, Lesotho 15, Namibia 16, Swaziland 8 and South Africa 3). The contractors arranged for 8 resource persons. A course pack containing the program, presentations and selected background documentation was handed to participants in the first session. Additional presentations were provided during the course.

The resource persons had been requested to organize their sessions to provide an overview of the issue outlining the requirements of the WTO before referring to its treatment under the US-Chile or US-Singapore Free Trade Agreements. They were also encouraged to put the issues in the context of the SACU economies and their existing trade policy environment. Prior to discussing specific topics under negotiation Frank

Flatters made a general presentation on the lessons from trade policy reform for economic growth and poverty alleviation. Bahle Sibisi gave an account of how South Africa prepared to negotiate on market access issues with the European Union.

There were four break out groups covering specific issues. The Market Access group identified specific areas for technical assistance including tariff rate quotas for selected products, the role of export subsidies, export incentives, state support, and domestic subsidies. The group on Regulatory Issues focused almost exclusively on TBT/SPS and concluded that the WTO TBT and SPS Agreements will provide the basis for these chapters in the US-SACU Agreement. It was recognized that the negotiations with the US provided an opportunity for developing a more effective framework for managing Technical Regulations, noting that Mexico used its accession to NAFTA to reform its Technical Regulations through the adoption of a guillotine process (automatic removal of technical regulations that were not in active use).

The group on Trade Facilitation examined the customs provisions of the US-Chile Agreement. It found that although SACU has common customs legislation it is not up to date, they are still moving towards adopting all the provisions of the Kyoto Convention. They identified the need for a 'needs assessment' to assess the requirements for technical cooperation. The Services group asked the basic question-is SACU ready to negotiate effectively on this issue given that is no common policy on services within SACU. They considered it is necessary to examine legislation in their own country to identify the areas for negotiation and to identify the issues. Based on each country's own assessment it may then be possible to agree a common SACU objective.

### ***Impact***

In the final session participants commented on the course and on the way forward. The general consensus, supported by the post course evaluation, was the course provided a useful introduction to the different trade negotiating issues. The course pack was also found to be useful. The participants stressed the importance of setting the discussion within a SACU context and of follow up Trade Capacity Building Work at the national level. It was recognized that there is an immediate need to focus more on Services and Phase 2 issues.

The Training Course was closed by Mr. Kaakunga, the Chairman of the Trade Capacity Building Committee, who stated that the sessions had shown how SACU countries could use trade negotiations with the US to improve their domestic enabling environments.

### ***Delivery to Planned Output and Milestones***

The course met its objectives, being organized and delivered along with training material and a background pack within a three week period.

#### ***2.3.2.2 TCB Needs Assessment Program***

##### ***Purpose***

To elaborate further SACU's Integrated Strategy to better identify and prioritize potential Trade Capacity Building (TCB) activities to ensure SACU members can properly

participate in negotiations, implement commitments, and take advantage of subsequent trade opportunities.

### ***Approach and output***

Over a period of 15 working days, consultants engaged in consultations with government policy makers and other stakeholders including the private sector. The exercise served to elaborate and validate the list of priorities outlined in the SACU Integrated Strategy Document for TCB and also to establish additional areas of priority for the BLNS. In addition the exercise sought to highlight the trade policy formulation and implementation framework in place in each country. Furthermore, the assessment offered the BLNS an opportunity to revisit some of the priority areas they had highlighted in the strategy paper and in some cases their level of importance was revised. The assessment also revealed that in some countries, the private sector prior to the launch of the needs assessment had not been part of the consultative process and therefore they welcomed their inclusion in the assessment.

TSG put in place in each BLNS country administrative modalities for the delivery and coordination of TCB activities. Pursuant to BLNS requests, TSG procured and delivered, in each BLNS, country computer equipment for use by the Ministries of Trade. In addition, TSG contracted long term consultants (one) for placement in each Ministry of Trade. The consultants, referred to as “Facilitators” would among their duties act as contact points for the TCB work and facilitate the participation of their respective countries in the agreed activities.

To facilitate the elaboration of the integrated strategy document and the formulation of a prioritized implementation plan, TSG engaged the services of two short term consultants in each BLNS<sup>2</sup> country to undertake a needs assessment and further elaborate the priorities outlined in the strategy document.

### ***Impact***

The exercise contributed towards the resuscitation of national stakeholder discussions on the impact and potential benefits of the FTA.

The Ministries of Trade were also offered guidance on the best strategies to optimize their limited resources and to improve coordination with other governmental departments, and have recognized the importance of regional co-ordination in addressing some of their capacity issues. The consultations allowed the Ministries identify their immediate needs vs. long term ones such as long term training and institutional reform.

### ***Delivery to planned output and milestones***

The assessment met its objectives. Consultations with various government ministries confirmed the process improved understanding of the roles of individual stakeholders and has highlighted the importance of the active involvement of the private sector in the formulation of national policy.

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<sup>2</sup> In the case of Namibia, four short term consultant were engaged.



### **2.3.2.3      *SACU – US Trade in Services Workshop***

#### ***Purpose***

To provide an in-depth overview of the key elements likely to arise in the SACU/US FTA services chapter negotiations and examine the link to WTO commitments and obligations, drawing on the experience gained by Chile from the recently concluded US/Chile FTA negotiations.

#### ***Approach and output***

The workshop held in Maseru, Lesotho on 19-20 April 2004 was conducted over a two day period with the participation of senior government trade officials from all the BLNS countries. Regional and international experts were engaged to prepare and deliver presentations outlining the critical issues in services trade negotiations. Furthermore, a senior trade negotiator from Chile was invited to participate in the workshop by sharing with the participants the experience of Chile during its negotiations with the US for a FTA.

The workshop also allowed the participants the opportunity to address a number of key issues including key strategic issues for SACU in the FTA negotiations, the interaction between the ongoing services trade negotiations at the WTO and the FTA process, concerns about further liberalization in areas such as financial services and telecommunications and an exchange of views on the various national interests among the BLNS.

The workshop concluded with an overview of the practical approaches to formulating offers and requests.

#### ***Impact***

To take the work forward, delegates at the workshop identified key elements of a scope of work for a comprehensive study on the economic implications of further liberalization of services trade by SACU countries (see below for details).

In their evaluation of the workshop, participants noted that their understanding of the resource requirements for negotiating services commitments was greatly enhanced including the role of the various national stakeholders. Some participants expressed concern about the full cost of implementing commitments.

#### ***Delivery to Planned Output and Milestones***

The workshop broadly met its objectives. Discussion indicated participants had gained a better understanding of the practical implications of undertaking services commitments. However, the objective of reaching a consensus was not reached in all areas, in particular discussions on the positive list approach vs. the negative list approach for undertaking commitments remained highly charged and some participants noted the need for further discussions.

#### **2.3.2.4 SACU – US FTA Workshop on tariff policy**

##### ***Purpose***

The workshop aimed to provide an assessment of SACU and US current external tariff policies and enhance BLNS understanding of trade and tariff data and tariff-cutting modalities as they prepare initial tariff offers in the US-SACU FTA. The workshop outlined the economic implications of tariff policy for economic development and competitiveness and to provide participants with an overview of the key issues to consider in preparing a tariff phase down schedule for the US-SACU FTA.

##### ***Approach and output***

The workshop was held in Maseru, Lesotho on 9-10 May 2004 with the participation of government officials from all the BLNS countries and experts from the region and the US. In their presentations and interventions, the experts highlighted the role of tariffs as instruments of trade policy and the contribution of liberalization to economic development and international competitiveness. Also considered were potential revenue loss as a result of further tariff liberalization and the impact on production and exports.

An overview of recent developments in SACU's external tariff policy including developments in industrial policy and ongoing efforts to harmonize in this area was presented. Key characteristics of the SACU tariff structure including issues for consideration during the current process and their potential implications on certain industries and sectors were highlighted. The workshop concluded with a demonstration on the key issues for consideration with regard to negotiating modalities and techniques and their likely impact on certain sectors of strategic interest to SACU.

##### ***Impact***

The workshop served to enhance ownership amongst the BNLS, with Participants expressing the need for follow up with dedicated national level seminars which will devote more attention to domestic considerations and industries.

##### ***Delivery to Planned Output and Milestones***

The workshop met its objectives. In their feedback, participants noted that their understanding of tariff policy had been substantially enhanced. They also expressed their satisfaction with the content and quality of workshop materials and presentation, with the inclusion of a session highlighting South Africa's experience during the EU/SA Trade Agreement negotiations.

#### **2.3.2.5 Follow up TCB Activities**

Ownership on the part of the BNLS countries has lead to demand for the following activities, activities which are supported under a separate task order.

- Study on the Economic Impact of Tariff Liberalization
- Technical Barriers to Trade workshop
- Study on the economic effects of services trade liberalization

- Scoping exercise on the TCB needs of the BLNS in the area of trade statistics and economic analysis.

### **2.3.3 USAID/RCSA Round Table: “Enhancing International Competitiveness through Trade Liberalization”**

#### ***Purpose***

The Roundtable addressed the central question of how the commitment to regional integration in Southern and Eastern Africa can help make African producers competitive on world markets and underpin sustainable development. A key challenge was to ensure policies fully reflect the day to day realities of commerce.

#### ***Approach and Output***

The Roundtable brought together over 80 participants, including Senior Government Officials and policy makers, representatives of SACU, COMESA and SADC, private sector organizations and leading retailers and Donor organizations in Johannesburg on the 5<sup>th</sup> – 6<sup>th</sup> August 2004.

Keynote addresses by Dr.Cashion, USAID/RCSA, Mr. Ngwenya, COMESA, and Professor Cassim of WITS University set the context for discussion, highlighting the challenges for the region in achieving regional integration and developing an enabling environment for trade and investment. Contributions by the project facilitated deliberations on specific areas of trade policy. Dr. Kirk’s assessment of the implementation of the SADC Trade Protocol provided, according to several participants, a needed “reality check”. The discussion on rules of origin led by Professor Flatters revealed the extent to which they are damaging competitiveness and, in the evaluation of one participant, enabled her to “see things from a different perspective”.

The project secured the participation of key retailers in southern Africa, drawing on contacts made during the Mid Term Review of the SADC Trade Protocol. The presentations made by Woolworths and Shoprite were very effective in getting across to policy makers and donors the reality of regional trade and the importance of non tariff barriers (NTBs). They helped underscore the presentation by Professor Cassing on NTBs.

Discussion of Technical Assistance, including representatives from USAID, DFID, and the EC, underscored the challenges in supporting negotiations, namely ownership, trust and effectiveness, and revealed the different approaches taken by donors. The roundtable also served to make non state actors aware of the assistance that is available. The Trade Hub AGOA expert informed participants of the latest status of the Initiative.

**Conclusions** were drawn together by participants in the final session. For export growth, it was concluded that supply side constraints are most important. However, in some instances traders experience difficulties in meeting USA and EU food safety regulations. With regards to regional integration main constraints are poor infrastructure and administrative and non tariff barriers. Priorities in addressing the barriers to trade development were identified as: establishing targets for trade policy – the SADC Trade Protocol especially - with regular monitoring and follow up; better information on

customs and trade – in particular help desks should be considered. A “clean” business and policy environment needs to be established.

Creating an enabling environment requires the full participation of business and labor and greater attention should be given to building their capacity. In operationalizing assistance to governments, several factors were highlighted including: the need to pool resources at the regional level for e.g. laboratories; that capacity building assistance can inadvertently support the development of protectionist policy measures; the importance of efficiently and effectively allocating roles and learning from other organizations in trade negotiations.

Finally, donor co-ordination is essential and could be facilitated by the development of a regional Poverty Reduction Strategy and Integrated Framework.

### ***Impact***

Evaluations of the roundtable indicated discussion helped senior officials identify policies, NTBs and Rules of Origin in particular, constraining regional integration and competitiveness. Responses to the question “how will the insights (resulting from the roundtable) help you in your daily work?” included “These insights will allow me to advise SADC Member states on the steps to be taken towards fast tracking our integration process in the region” and from another “issues discussed will help me refine our trade and investment strategy”.

As a result of contacts made at the workshop, Senior Government Officials, Shoprite representatives and donors are considering looking at ways of enhancing local supply to retail chains throughout the region.

As a result of discussions, the EU and DFID are considering the implications of developing the proposed regional integrated framework for trade capacity building. And non state actors expressed a keen interest to know more about how they can play a role, and build there own capacity in trade policy.

### ***Delivery to Planned Outputs and Milestones***

The Roundtable met its objectives. Achievements in terms of advocacy and outreach and network building have been indicated above. In addition the roundtable was covered in leading South African Newspapers. The evaluations of participants also suggest the roundtable took forward discussion on: policies to facilitate trade; the improvements required in technical assistance; the importance of private sector participation.

The project prepared the Agenda, identified participants and organized, prepared and commissioned presentations in a timely and effective manner.

## **2.3.4 Mozambique: Economic Implications of Joining SACU**

### ***Purpose***

The purpose of this technical study is to assess the economic costs and benefits associated with the possible accession of Mozambique to the Southern African Customs Union (SACU).

### ***Approach and Output***

Robert Kirk, Frank Flatters and Kathleen Trask carried out a study to assess the implications for Mozambique from joining the Southern African Customs Union (SACU). The report highlighted and quantified the costs and benefits to Mozambique from removing duties on trade with the five members of SACU-Botswana, Lesotho, Namibia, South Africa and Swaziland- amending its own trade policy to conform with the SACU Common External Tariff (CET) and participating in the common revenue pool. The report identified three key questions for Mozambique:

- Will it improve Mozambique's trade, investment and fiscal environment?
- Will it facilitate her commitments under the Action Plan for the Reduction of Total Poverty to increase economic growth and reduce poverty?
- Can the Government of Mozambique use the accession to SACU as a catalyst for achieving either of the above objectives?

### ***Impact***

The study noted how joining SACU would accelerate Mozambique's integration with South Africa, and how the moves to conclude a US-SACU FTA promises to open up the SACU market with the risk of minimal trade diversion. If SACU were to reduce their external trade barriers in conjunction with the lowering and removal of internal barriers the benefits to Mozambique from joining the SACU would increase significantly.

### ***Delivery to Planned Outputs and Milestones***

The report was submitted to the Government of Mozambique and the consultants participated in a National Level workshop in Maputo (July 23, 2004) which was also attended by the Executive Secretary of SACU. The Final Report is being quoted in the Draft Diagnostic Trade Integration Study (DTIS) for Mozambique and has been translated into Portuguese for wider dissemination.

## **2.3.5 The SADC Motor Industry**

### ***Purpose***

The purpose of the technical study of the SADC Motor Industry is to examine how the Trade Protocol might be utilized to promote and exploit the potential of the region in this sector. In particular the study will examine the industrial support measures promoted under the Motor Industry Development Programme (MIDP) for the benefit of South African motor industry to determine the feasibility or desirability of modifying or extending these benefits throughout the Southern African region.

### ***Approach and Output***

The motor industry also became a focus of attention in trade and industrial policies in the SADC regional context. The project was commissioned by the SADC Secretariat, on

behalf of the Senior Ministers, to conduct a study of the possibilities of greater regional integration of the motor industry, and of benefiting from the use of MIDP-like policies on a SADC wide basis. The study team comprised Frank Flatters, Danie Jordaan, Trade Consultant, Dr. Jasper Steyn, Director of the Automotive Study Group, University of Pretoria, and Dr. Rashad Cassim, Director of the School of Economic and Business Sciences University of Witwatersrand. David Kaplan, Chief Economist at the South African Department for Trade and Industry (DTI) and Anthony Black, Head of Business at the University of Cape Town (UCT) served in an informal advisory basis.

The team critically reviewed existing policy and regulatory support measures, interviewed key public officials responsible for policy implementation and accessed the views of the private sector. Discussions with private sector interests in the sector and analysis of data obtained confirmed earlier skepticism on the potential of such an approach and the report recommended that the MIDP was not a model that would have any advantages for SADC. Observations and recommendations were also made about the role of the rules of origin and other elements of the SADC TP, and about the possibilities of harmonization of tariffs and other import restrictions in this sector.

### ***Impact***

The efforts were successful in improving understanding of the private sector's own interests in some of the issues and agreement is emerging on the need to review earlier decisions made by SADC trade negotiators with regards to industrial policy.

### ***Delivery to Planned Outputs and Milestones***

The study achieved its objectives. A report has been prepared for the SADC Committee of Ministers Responsible for Trade and Industry (CMT).

## **2.3.6 Tariff Policy Analysis Workshop**

### ***Purpose***

The objective for the two day workshop, held at the COMESA Secretariat in Lusaka, Zambia, was to draw together regional researchers to build capacity in evaluating effective rates of tariff protection and implications for international competitiveness, serving also to strengthen the regional research network.

### ***Approach and Output***

The workshop was run jointly with COMESA Secretariat, under the auspices of SATRN on the 25<sup>th</sup> and 26<sup>th</sup> of March 2004. 16 participants, attended from across the SADC region, coming from Ministries, Think Tanks, Academia and the private sector and with varied experience of effective rates of protection analysis. Some initially struggled with the basic concepts while others were looking to expand their already considerable knowledge of the subject. The workshop was based on the Tariff Policy Impact Model (TPIM) developed by TSG for the SADC Economic Impact Assessment.

On day one, following a review of key concepts, participants were introduced to the results of a quantitative model of effective rates of protection in the domestic and regional markets of SADC, SACU and COMESA, and where this most affects

international competitiveness. On day two, participants were introduced to the workings of the tariff policy model and its data requirements. They used the results of the quantitative analysis to evaluate the impact of tariffs on key sectors of interest. Researchers were able to explore ideas for research proposals including the development of equivalent analysis at the national level.

The computer workshops allowed participants to see how standard economic theory could be applied to real economic issues to assess, for key sectors, the impact of tariffs “on the ground”. The potential incompatibility of tariffs with industrial and export promotion policies was also examined. For example, food processing is a target for export promotion in Zambia but current tariffs are creating a large anti export bias for this sector. Without the computer workshops and concrete applications, it is doubtful that so much could have been taught to a group with such very widely differing knowledge of ERP analysis.

Participants recognized that much research in the region is not driven by policy relevance but rather by the availability of data. And this practice has damaged the credibility of regional research and hindered effective policy making. A central challenge for the research community is cost. Discussion during the workshop served to highlight the vicious circle of high costs leading to only those with a proven track record being eligible for funding, but to develop a track record funding was needed.

Furthermore, they also recognized that building stronger links with the private sector would be an important factor in enhancing the customer orientation of their work and reducing the cost of collecting research material.

### ***Impact***

The workshop succeeded in building participants’ capacity to evaluate the impact of tariff policy on international competitiveness, and strengthen the research network.

Following up with participants at the workshop, the project developed pilot studies with the Swaziland Federation of Employers and the Universities of Swaziland and Zambia.

The workshop was successful in generating further demand for training with the Namibian Economic Policy Research Unit (NEPRU) and the SACU Secretariat. However this request was received in the final weeks of the project, too late to follow up.

### ***Delivery to Planned Outputs and Milestones***

The workshop achieved its objectives. Planned outputs included identifying and following up potential partners in developing the capacity to assess the impact of tariffs in up to three SADC Member States. In Swaziland and Zambia, this process is underway.

The other objective of developing a training package for tariff policy analysis was also met. However, a stand alone training manual was not developed as participants suggested such a manual could not replace the workshop approach.

### **2.3.7 SADC Export Incentives Study**

#### ***Purpose***

This study included a baseline survey to document the operation of the various export incentives in operation in all the Member States of SADC. The baseline survey found a wide range of export incentives in place, including export processing zones, duty remission, duty rebate, bonded warehouse schemes and export subsidies aimed at compensating for higher priced domestic inputs. The report addresses the issue of WTO compatibility and how goods produced under export incentives should be treated in terms of SADC preferences.

#### ***Approach and output***

A baseline survey was undertaken in most Member States of SADC where Sutherland Miller and Joshua Setipa interviewed government officials and private sector representatives on the operation of the investment incentives. The study submitted a report to SADC Secretariat in March 2004. SADC requested some additional work to address the issue of how products produced with country specific export incentives should be treated in terms of the SADC Trade Protocol.

#### ***Delivery to Planned Outputs and Milestones***

The final report was only produced at the end of the project owing to the reallocation of LOE to other activities under the project. The findings will be considered by SADC Secretariat and be presented to Member States at the forthcoming meeting of the Committee of Senior Officials on Trade.

### **2.3.8 Technical Barriers to Trade in SADC: Case Studies of Regional Exporters**

#### ***Purpose***

This work built on the results of earlier consultative activities which emphasized the need to conduct detailed case studies on TBT constraints facing SADC exporters in regional and international markets. Sectoral/product specific approaches across countries serve three important objectives: (1) Raising awareness and political profile of the importance of technical regulations among various domestic economic actors (2) Facilitating the introduction of remedial measures to raise export competitiveness (3) Improving the ability of SADC Member States to participate in selected international TBT negotiations from an informed position and thereby promote trade interests in areas important to their economies.

These case studies evaluate conformity assessment infrastructure and identify potential scope for regional co-operation.

#### ***Approach and Outputs***

In the first phase of the project, specific measures and sectors with an important economic impact on the region and that could be handled by regional intervention were identified through desk research and consultations with stakeholders. The work was carried out by Kathleen Trask, TBT Advisor, and two short term consultants, Leonardo



Iacovone, Research Officer, University of Sussex, and Dr. James Cassing, Professor of Economics, University of Pittsburgh.

On this basis the issues of Maximum Residue Levels (MRLs) and the EUREGAP program were selected which particularly impact on horticultural products in the region. This also allowed the case studies to build on previous work carried out in specific Member States by SAGC. Country Visits are currently being carried out in South Africa, Mozambique and Zambia. MRL regulation will affect all fruit and vegetable exports from the SADC region which have averaged US\$ 825 million per annum from 1998-2003. These regulations increase the costs of production. The EUREGAP program will impose various types of requirements on the exports of fruit and vegetables. Both of these programs have or will have a large impact on a substantial source of exports from the SADC Region. While larger operators are normally better placed to comply with these norms, smallholders and smaller farmers can often be closed out of critical export oriented value chains. For the small economies in the SADC region, compliance with these regulations in key export markets is particularly difficult as they often have less developed input distribution systems and may be too small in terms of total production for the development of elaborate compliance systems to be economically feasible. Thus, it is crucial for SADC Member States to look towards regional strategies and responses.

### ***Impact***

The design of these studies has taken a different approach to much of the current work on TBT issues in the region – which has largely focused on institutional issues. One of the most significant constraints in addressing TBT in the region is the lack of political will – the study's focus on the economics costs of TBT in the region will be integral in increasing awareness and response in the SADC Member States.

### ***Delivery to Planned Output and Milestones***

The study has met its objectives. The case studies will form the basis for discussion amongst Member States at upcoming workshops, to be held following the termination of the program.

## **2.3.9 Post Cancun WTO Workshop**

### ***Purpose***

The workshop assisted the SADC Secretariat and Member States in defining positive and realistic positions to take forward in multilateral trade negotiations following the events of the Cancun Ministerial meeting in September 2003.

### ***Approach and Output***

Following agreement with the SADC Secretariat and RCSA, the scheduled TCB project's post – Cancun Workshop was incorporated within the SATRN 2<sup>nd</sup> Annual Trade Symposium held in Maputo on November 20-22<sup>nd</sup> 2003 entitled “Enhancing the Benefits for SADC Countries in the Doha Round”.

Approximately 70 persons attended the symposium comprising SADC Geneva and Brussels Ambassadors and negotiators, capital based senior trade officials, economic

researchers from Southern African universities and institutes, international economic researchers and trade policy experts.

The TCB projects substantive presentation, “Potential Markets and Barriers to Access for SADC Exports” by Chip Krakoff focused on the issues confronting SADC industries in terms of greater competition on existing export markets and, with the value of preferences declining fast, the need to look towards new markets. It demonstrated the potential of the markets of other developing regions, which have the highest population and income growth rates, with South – South Trade growing faster than world trade. The markets with the greatest untapped potential for key exports were identified and the extent that trade barriers, tariffs in particular, may be preventing potential being realized.

SADC exporters’ competitive position on export markets are also being challenged through the rise of regional trade agreements that the region is not party to.

Singapore issues: In addition to the presentation above, the TCB resident technical capacity advisor, Dr. Nick Charalambides joined a panel discussion on the contentious “Singapore Issues” affecting consensus in the multilateral trading system. Dr. Charalambides highlighted that while academic studies on Singapore issues were limited, direct consultation with the investors and their needs would provide important direction for discussion in this area.

Opinion differed as to whether the region could continue to simply refuse to accept any of the Singapore Issues: while negotiation required compromise, the SADC Trade Ministers meeting, held before Cancun in Lusaka, had explicitly ruled out negotiations on these issues.

### ***Impact***

The contributions by the TCB program demonstrated that the sterile North – South divide that characterized the Cancun discussion on tariffs was not in the economic self interest of countries in the region, and highlighted the need for close consultation with the private sector in developing policy positions.

### ***Delivery to Planned Output and Milestones***

Activities largely delivered to planned output and milestones. Discussion at the workshop indicated that project contributions had gone some way to identifying a positive agenda for tariff negotiations. Discussions of Singapore issues however were often highly politicized, cutting across debate on economic self interest in these areas.

## **2.3.10 Assisting Angola to Implement the SADC Trade Protocol**

### ***Purpose***

At the request of the Angolan government to the SADC Secretariat, a report was prepared to assist the Government of Angola to present a schedule for implementing the SADC Trade Protocol. The report developed a detailed implementation schedule for the removal of tariffs on SADC trade.

### ***Approach and Output***

A team lead by Mr. Fekete traveled to Luanda between March 31<sup>st</sup> and April 15<sup>th</sup>, 2003, to prepare an inception report which highlighted critical issues for consideration by the Government of Angola in its approach to implementing the SADC Trade Protocol. In particular it identified key strategic decisions for evaluating the approach to removing tariffs against its SADC Partners. These were: fast track vs. slow track tariff reduction; the choice of base year for lowering tariffs; single or dual offers; whether the principle of special and differential treatment should be reflected in implementation schedules; identifying how Angola would benefit from implementing the SADC Trade Protocol. Initial findings and proposals were submitted in an Inception Report.

Following discussion between the SADC Secretariat and the Government of Angola, Paul Kalenga, accompanied by Dr. Nicolau Sululo from the SADC Secretariat visited Luanda during the last quarter of 2003 to complete the final phase of assistance to support Angola's accession. The team met with the Ministry of Industry, the Ministry of Planning, SADC National Contact Point, the Bureau of Standards, Ministry of Finance (Customs and Treasury), Ministry of Agriculture, National Institute of Statistics, Ministry of Fisheries, Industrial Association of Angola and USAID Angola Mission.

The report puts forward key parameters for the tariff phase-down schedule by Angola required for joining the SADC Free Trade Area (FTA). The overall guiding principle is the requirement that by the end of eight years (2008) 85% of all trade should be at zero tariffs and at the end of 12 years (2012) at least 98% of goods should be traded duty free. The report notes that increasing the openness of the Angolan economy would stimulate growth and reduce poverty. The report recommends that Angola continue with its MFN based tariff reductions and that it links the implementation of the SADC Trade Protocol to the further lowering of MFN tariffs. Available data suggest that in 2001 taxes on foreign trade accounted for a modest 2.1% of total government revenue. The relative absence of substantial revenue 'sensitivity' places Angola in a fortunate position to meaningfully implement the SADC Trade Protocol.

Angola's export trade is predominantly with the rest-of- the world rather than regional markets, and is overwhelmingly dominated by oil and diamond exports accounting for about 90% and 8% of total exports respectively. There are limited prospects in the short-to medium term of increased exports to SADC markets despite preferential market access. Currently most of the inputs, intermediate and basic food items attract a tariff rate of 2%, 5% and 10%. The report recommended that all tariff lines attracting duties of 10% and below should be reduced to zero upon the implementation of the SADC Trade Protocol.

The report noted that Angola can benefit more from the experience of other developing economies that have promoted their competitiveness through export-orientation. The report recommended that it is in the interest of Angola's growth imperatives to minimize the 'sensitive' list of products for delayed tariff reduction.

While tariff reductions on goods are important to facilitate cross-border trade, the deepening of regional integration would require urgent attention to be paid to particularly the removal of non-tariff barriers (NTBs) to trade, policies and measures to deal with the

supply-side constraints and enhancing institutional and regulatory capacity for the management of trade policy in Angola. These require dedicated trade capacity-building assistance activities to support Angola in bilateral, regional and multilateral trade negotiations.

***Delivery to Planned Output***

The project has met objectives with the SADC Secretariat accepting the Final Report, arranging for it to be edited and translated into Portuguese and submitted as a SADC document. The SADC report accepted all the recommendations of the earlier study. The Government of Angola is yet to submit a tariff implementation schedule, but this is expected within the next six months.

### **Chapter 3: Activities affected by the Reallocation of Resources**

During 2003/4 the Work Plan was amended to accommodate the need to address the demand for more TCB activities in support of the US – SACU FTA. In order to support these activities, several activities had to be discontinued. The project also reallocated activities in some instances to reflect the changing priorities of partner recipients and the flexible response of the project to ensure the results of activities were fully owned by partners. Activities affected by reallocation of resources and discontinued:

- SADC: Economic Implications of moving to a Customs Union. Under the direction of the Task Manager, a team of local consultants was identified to assist with the study, tariff scenarios for possible Common External Tariffs were defined and the framework for analysis of the economic and revenue impact established. Following the inception phase, the outline and approach for the study was presented to and approved by the SADC Secretariat. Budget reallocation to support SACU TCB prevented this study being implemented.
- A SADC Seminar on Tariff Policy and three country level Seminars on Tariff Policy could not take place due to reallocation of resources to support SACU TCB.
- Technical Barriers to Trade in SADC: Database of Technical Regulations. In the course of consultation with SQAM Coordinators, concerns were voiced that this work would conflict with an extensive review of TBT regulation in South Africa. After consultation with the SADC Secretariat and USAID, a decision was taken to reallocate the resources for this task to areas of higher priority.
- Technical Barriers to Trade in SADC: Annex to SADC Trade Protocol. Several difficulties were encountered. The late appointment of a SADC advisor delayed the planned TBT agenda. Most importantly, the project became aware of a Draft TBT Annex being prepared for the SADC Secretariat from another source. Thereafter, the project's approach was to facilitate discussion among the Member States to move the annex towards adoption. As part of this approach, the project planned to organize a TBT workshop which had to be cancelled due to difficulties in scheduling with the SADC Secretariat.

## **Chapter 4: Achievements and Way Ahead**

### **Achievements**

The project has provided technical support for trade policy analysis through the SADC Secretariat, the Southern African Global Competitiveness Hub and in support of the SACU – US FTA negotiations. The project initiated work on the economic impact of the SADC Free Trade Agreement which has contributed to increasing understanding in Member States of the importance of a more open economy towards increasing competitiveness.

The work on rules of origin has raised the awareness of the economic impact of this non tariff barrier within SADC but also much more broadly. This work has become widely recognized as making an important contribution to policy debate, with Professor Flatters and Dr. Kirk contributing to a forthcoming book on the economics of rules of origin, and recently a number of cooperating partners including the World Bank and DFID have committed to undertaking further work on the economic impact of the rules of origin.

The study on the economic impact of the SADC Trade Protocol complemented the work on rules of origin and showed clearly how further external trade liberalization was necessary in order to ensure that the move towards a single economic space within SADC served as a stepping stone to increased global competitiveness. The study was undertaken in cooperation with COMESA, and involved the development of a comprehensive model for calculating firm level effective rates of protection under different trade policy scenarios. The World Bank will be using the model on their forthcoming study on export diversification in Botswana. COMESA continues to use the model in their ongoing economic policy work.

The program on Technical Barriers to Trade has ensured that Trade Policy Officials are now aware of the importance of this subject. Prior to our work the trade policy officials within SADC had not been involved in the work program of the committee working on Standards, Quality Assurance, Accreditation and Metrology (SQAM). The work has focused on raising awareness within Member States on the importance of implementing the WTO TBT Agreement, the importance of good regulatory practice, and supporting the regional work program which aims to realize regional economies of scale through increased cooperation. The target of approving a Technical Annex to the Trade Protocol on SQAM was not achieved. SADC Secretariat postponed a workshop originally scheduled for July 2004 to discuss the draft Technical Annex. This will now take place after the completion of the project. Considerable further work will be necessary to support Member States to implement the WTO TBT Agreement and to participate more effectively in the WTO TBT Committee.

The emphasis on carrying out substantive economic analysis that seeks to identify and estimate the impact of specific policy interventions has succeeded in raising awareness within SADC Member States about the unintended consequences of many of the proposals put forward for implementing the Trade Protocol. The work on rules of origin and economic impact has assisted in changing the perception of the SADC Trade

Protocol. During the negotiation of the SADC Trade Protocol most trade officials considered the SADC Free Trade Area as a mechanism for improving their market access to the SACU countries, primarily South Africa and paid little attention to the concept of open regionalism.

The work under the project has highlighted the relatively small size of the SADC market, along with its modest growth rates and drawn attention to the potential benefits from increasing international competitiveness. Restrictive rules of origin along with the existence of significant anti-export bias are now accepted as constraints to achieving increased investment and growth. Our work has contributed to a deeper understanding amongst policy makers and the business community of the importance of being internationally competitive.

The project has provided trade capacity building as requested by the US-SACU Consultative Committee on Trade Capacity Building. This has included short courses, workshops, Country assessments, and the provision of facilitators.

### **Lessons learnt**

Rigorous analysis of specific and high profile trade policy measures – including the MIDP, Rules of Origin and the SADC Trade Protocol – has enabled the project to demonstrate in concrete ways the damaging impact of protectionist measures. This has served to put the onus for justifying interventionist policies onto beneficiary vested interests. To help shape policy debate, the project has had to be proactive and flexible; an example is the work on SADC rules of origin and AGOA. In this instance the project was allowed the discretion to take advantage of public interest in AGOA to demonstrate that an inward approach to regionalism in Southern Africa risked damaging the potential for developing a competitive regional supply chain in clothing.

A flexible approach has also been central to responding to the demands of key stakeholders. Flexibility has been particularly important in providing support to the SACU – US FTA negotiations - in one case we were called on to prepare and run a workshop for negotiators within a three week period. Flexibility relates also to the range of services that the project has provided; the political and dynamic nature of negotiations means that issues to be addressed through TCB change rapidly. The timely delivery of quality support, which has been central to ensuring ownership of activities by the BNLS, has only been possible because the project has been able to draw on a wide network of regional and international short term experts.

As the project progressed it developed an extensive network which includes senior government officials, key private sector representatives and retailers throughout the region, as well as donors and experts. Increasingly the project is serving as a node, generating significant positive spillovers. For example, as a result of contacts made at a recent roundtable organized by the project, leading retailers are now reportedly approaching directly senior government officials in the region to address trade barriers affecting their business. Outreach has also become increasingly effective as the project is now able to call on representatives of the private sector in the region to express views which underscore, and contribute to, the results of analytical work. This has required the

careful development and management of personal relationships by team members. This in turn, to be sustainable, requires long term commitment to and continuity in TCB activities.

Long term commitment has also proved important in building analytical capacity in the region. Our experience suggests that while workshops can be very effective for sensitization to key issues and to underpin research networks, the transfer of skills generally requires project experts to play a mentoring role. Working in cooperation with regional institutions and research organizations such as COMESA, SATRN, TIPS and TRALAC, can also be effective in anchoring individual regional researchers into research networks.

Working through the regional institutions of SADC and SACU has also proved particularly effective in ensuring analysis and training reaches key stakeholders. Though political sensitivities, bureaucratic decision making and resource constraints at the SADC Secretariat resulted in some activities being delayed and others cancelled. However, working closely with the SADC Secretariat provided a platform for discussion and access to senior government officials. With a sufficiently flexible approach and a wide network to draw, in most cases problems could be overcome.

Finally, it should be noted the approach to undertaking analysis was often as important as the results of the analysis itself. By working with key stakeholders in the preparation of studies we helped ensure ownership and wide dissemination of the results, as well as transferring skills.

### **Way Ahead**

Notwithstanding the progress on the work to date much remains to be achieved. Protectionist sentiments continue to flourish in the guise of industrial policy. More work is required to highlight the anti competitiveness impact of intervening to promote specific industries through subsidies. At the SADC Meetings there continues to be contradictory views on the benefits of open markets and international competitiveness. More applied policy analysis work is required to build up capacity across the region.



## **Project Staff**

### **Long Term Technical Advisers.**

**Senior Trade Policy Advisor –Robert Kirk (August 2000 – July 2003) Project Director July 2003-August 2004**

**Chief of Party – Denis M. Gallagher\* (June 2003-March 2004)**

**Trade Impact Adviser – Paul Kalenga (May 2002- April 2004)**

**Trade Policy Adviser - Joshua Setipa (August 2003-August 2004)**

**Trade Capacity Building Advisor – Nicholas Charalambides (August 2003 – August 2004)**

**Technical Barriers to Trade Adviser – Kathleen Trask (May 2003 –August 2004)**

- **Resigned position to take up another appointment.**



**Annex 1: Results Framework  
Trade Capacity Building Program  
2003/04**

Program activity	Countries	Outcome
1. Mid-Term Review - SADC Trade Protocol	Entire region	The review identified the extent to which NTBs in the SADC region are preventing intra-SADC trade. A central recommendation is a <u>Monitoring and Implementation Unit</u> with the direct participation of the private sector. This proposal has received the initial support of several Member States and will serve to underpin the network of public and private sector contacts established in carrying out the review. The report has been well received by the SADC Secretariat and the Member States Troika and will be discussed at the TNF on 13 <sup>th</sup> September.
2. SACU – US FTA TCB Program	BNLS	<u>The TCB Needs Assessment Program</u> : prioritized and operationalized the TCB strategy of BNLS and contributed to the resuscitation of national stakeholder discussion on the FTA. <u>Trade in Services workshop</u> : participants noted a clearer understanding of the practical implications of negotiations. To take work forward, delegates identified key elements of a scope of work for a further study. <u>Workshop on Tariff Policy</u> : participants noted their understanding of key strategic issues had been enhanced. The workshop served to enhance ownership - participants expressing the need for national level seminars.
3. USAID/RCSA Round table on Enhancing Competitiveness by Trade Liberalization	RSA	Evaluations indicated senior officials gained a clearer appreciation of constraints to regional integration and competitiveness. Responses from participants included “These insights will allow me to advise SADC Member states on the steps to be taken towards fast tracking our integration process in the region” and from another “issues discussed will help me refine our trade and investment strategy”. As a result of contacts made, Senior Officials, Shoprite representatives and donors are considering looking at ways of enhancing local supply to retail chains.
4. Mozambique - Implications of acceding to SACU	Mozambique	The study noted how joining SACU would accelerate Mozambique’s integration with South Africa, and how the moves to conclude a US-SACU FTA promises to open up the SACU market with the risk of minimal trade diversion. The report has been translated in Portuguese for wider dissemination.
5. Technical Evaluation of SADC Motor Industry	RSA	The evaluation has provided an economic assessment of the incentives created by RSA’s Motor Industry Development Program (MIDP) and demonstrated the MIDP is not a suitable model for industrial policy in SADC. The project’s

		involvement of the private sector has improved business's understanding of their own interests in SADC.
6. COMESA/ SATRN – Seminar on Tariff Policy	Zambia	Evaluations indicated an enhanced capacity to evaluate the impact of tariff policy on international competitiveness and strengthened the research network. Following up, the project developed pilot studies with the Swaziland Federation of Employers and the Universities of Swaziland and Zambia.
7. SADC Export Incentives Study	Entire region	The project prepared a baseline survey to document the operation of the various export incentives in operation in Member States of SADC. The report addresses the issue of WTO compatibility and how goods produced under export incentives should be treated under SADC.
8. Technical Barriers to Trade	Mozambique RSA, Zambia	The studies identify the economic costs of TBT in the region, which is integral to increasing awareness and responses in SADC Member States.
9. WTO Post-Cancun Workshop	Mozambique	The contributions by the project demonstrated that the sterile North – South divide which characterized the Cancun discussion on tariffs was not in the economic self interest of countries in the region, and highlighted the need for close consultation with the private sector in developing policy positions.
10. Angola: Preparation Schedule to implement SADC Trade Protocol	Angola	The report noted it was in the interest of Angola to minimise the list of “sensitive” products for delayed tariff implementation. The report has been accepted by the SADC Secretariat and is being translated into Portuguese. Angola is expected to submit a tariff implementation schedule within six months.

**Activities affected by Resource Allocation and Discontinued  
Trade Capacity Building Program  
2003/04**

<b>Program activity</b>
1. Economic Implications for SADC to establish Customs Union
2. Technical Barriers to Trade: Database of Technical Regulation; Annex to the SADC Trade Protocol
3. SADC – Seminar on Tariff Policy
4. Country-Level seminars on Tariff Policy (three countries)

## **Annex II: Project Documents**

### **Roundtable: Enhancing International Competitiveness through Trade Liberalization**

Key presentations

[SADC Trade Protocol Lessons to Date](#)

[Rules of Origin and Development Lessons from SADC](#)

[Standards and Technical Regulation](#)

[Trade Policy in South Africa Since Democracy](#)

[Lessons from AGOA](#)

[The Integrated Framework in Lesotho](#)

### **SACU US Free Trade Agreement**

1. “SACU – US Trade in Services Training Course” (2004) Key presentations

[Overview of Services Negotiations Modalities](#)

[The Chilean experience in Services](#)

[US-SACU FTA Financial Services](#)

[Namibia Central Bank Perspective on Financial Services](#)

[US-SACU FTA Key Services Strategic Issues](#)

[US-SACU FTA Telecoms](#)

[Regional Electricity Market](#)

2. “SACU – US Workshop on Tariff Policy” (2004) Key presentations

[Protection and Economic Welfare](#)

[Tariff Setting Modalities](#)

[SACU Formulating Tariff Liberalisation Schedules](#)

3. “Trade Capacity Building Program: SACU Training Course” (2003) key presentations.

[Domestic Reforms and Trade Policy](#)

[The National Interest in Trade Negotiations](#)

[Rules of Origin](#)

[US Chile FTA: Transparency Summary](#)

[US - Chile FTA: Investment Summary](#)

[US - Chile FTA: Telecom Summary](#)

[US - Chile FTA: Exceptions Summary](#)

[US - Chile FTA: Temporary Entry Summary](#)

[US - Chile FTA: Services Summary](#)

[US - Chile FTA: E-Commerce Summary](#)

4. “The Economic Effects of Tariff Liberalization” (Ongoing). This study will equip the BLNS with the tools to analyze and better understand the impact of tariff liberalization.
5. “Trade Capacity Building (TCB) Needs Assessment Report” (2004) reviews the Integrated Strategy for TCB initially put forward by the BNLS, evaluating priorities and identifying key drivers for capacity building.

### **SACU/ Mozambique**

1. “Mozambique accession to SACU” prepared to assist the Government of Mozambique assess the economic benefits and costs of joining SACU.
2. ["Trade Policy Strategies for Mozambique" \(2002\)](#) notes for discussions with Mozambican policy makers and business leaders.

### **Technical Barriers to Trade**

1. [“SADC Member States and the Implementation of the WTO Technical Barriers to Trade Agreement: Benchmark Study” \(2003\)](#) recommendations on technical regulation to facilitate market access based on 12 country case studies.  
[Annex 1 - Angola Country Report](#)  
[Annex 2 - Botswana Country Report](#)  
[Annex 3 - Lesotho Country Report](#)  
[Annex 4 - Malawi Country Report](#)  
[Annex 5 - Mauritius Country Report](#)  
[Annex 6 - Mozambique Country Report](#)  
[Annex 7 - Namibia Country Report](#)  
[Annex 8 - South Africa Country Report](#)  
[Annex 9 - Swaziland Country Report](#)  
[Annex 10 - Tanzania Country Report](#)  
[Annex 11 - Zambia Country Report](#)  
[Annex 12 - Zimbabwe Country Report](#)
2. ["Technical Regulation in a Changing World: Towards a Realistic Approach for SADC" \(2003\)](#) assessment of the various practices towards technical regulation and their relevance for SADC Member States.
3. ["The Management of Technical Regulation: Issues for SADC" \(2003\)](#) overview of approaches to preparing, managing and using technical regulations.
4. [“Technical Barriers to Trade: Case Studies”](#) illustrating the economic costs of technical barriers to trade.

### **Rules of Origin**

1. ["Rules of Origin as a Tool for Development?" \(2003\)](#) avoiding the pitfalls of regional approaches to trade liberalization.

2. ["SADC Rules of Origin: Undermining Regional Free Trade" \(2002\)](#) a synthesis of the project research on SADC Rules of Origin.
3. ["SADC Trade Protocol Outstanding Issues on the Rules of Origin" \(2002\)](#) the impact of restrictive rules of origin on competitiveness, updating earlier work carried out by the project [Outstanding Issues \(2001\)](#)
4. ["Wheat Flour in SADC Rules of Origin: Tariff Preferences and Competition" \(2002\)](#) critical analysis of alternative rules of origin for wheat and wheat products.
5. ["Rules of Origin and AGOA: Hard Choices for Textiles and Clothing in SADC" \(2002\)](#) rules of origin and export prospects for SADC clothing and textile industries.

### **SADC Trade Protocol**

1. ["SADC Economic Impact Assessment Study" \(2003\)](#) effective rates of protection and the anti – export bias of current tariff structures, drawing on firm level survey data collected by the project.
2. ["The Manufacturing Sector in Southern Africa" \(2003\)](#) a background study for the Impact Assessment.
3. ["The Service Sector in Southern Africa" \(2003\)](#) a background study for the Impact Assessment.
4. ["Customs Revenue Implications of the SADC Trade Protocol" \(2001\)](#) potential impact of the SADC free trade area on Member States' revenue.
5. ["Rationalization of Tariffs: Some Lessons from International Experience" \(2001\)](#) highlights particular lessons of trade policy reform of relevance to SADC Member States
6. ["The SADC Trade Protocol Impact Issues and the Way Ahead" \(2001\)](#) strategic issues in SADC regional integration.
7. ["Notification of the SADC Trade Protocol to the WTO" \(2001\)](#) examines the implications for SADC of notifying the SADC Trade Protocol under the Enabling Clause and under Article XXIV of the GATT>

### **Angola's Accession to the SADC Trade Protocol**

1. [Inception Report](#) on Issues Related to Angola's Implementation of the SADC Trade Protocol (2003) assistance to the Government of Angola in preparing an offer of tariff reduction and regulatory reform to accede to the Trade Protocol.

2. [Final Report \(2004\)](#) shows that it is in Angola's economic interest to minimize its list of "sensitive products" for delayed tariff implementation

### **Mid Term Review of the SADC Trade Protocol**

1. ["Mid Term Review of the SADC Trade Protocol" \(2004\)](#) evaluates the implementation of the SADC Trade Protocol, identifies Non Tariff Barriers constraining the private sector and examines the external trade policies of countries in the region in relation to SADC commitments.

### **South Africa's Motor Industry Development Program**

1. ["Driving the Motor Industry" \(2002\)](#) analysis of the economic costs of South Africa's Industry Development Program (MIDP).
2. ["Is the MIDP a Model for Selective Industrial Policy?" \(2002\)](#) commentary on recent assessments of successes of South Africa's motor industry and associated trade and industrial policies.

### **Tariff Policy Trade Training**

1. "Tariff Policy Analysis Workshop" (2004), key presentations:  
[SATRN Introduction](#)  
[Key concepts](#)  
[Data requirements for ERP analysis](#)  
[SADC Impact presentation](#)

### **Market Access Negotiations**

1. ["Key Potential Markets and the Market Access Barriers Facing Southern African Exporters" \(2003\)](#) identifies developing country markets for exports.